

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2009

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

JUNE 30, 2009

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**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

OFFICIALS

JUNE 30, 2009

Board of Trustees serving from January 1, 2009 through December 31, 2009

Name	Title	Term Expires
Charles Zahn	Chairman	12/31/13
Doug Farley	Secretary	12/31/10
Dennis Regal	Trustee	12/31/09
Craig Strutt	Trustee	12/31/09
Mike Eilers	Trustee	12/31/11

Board of Trustees serving from January 1, 2008 through December 31, 2008

Name	Title	Term Expires
Charles Zahn	Chairman	12/31/13
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Dennis Regal	Trustee	12/31/09
Craig Strutt	Trustee	12/31/09
Mike Eilers	Trustee	12/31/11

O'CONNOR, BROOKS & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

G.L. HARDIN, CPA
W.H. LEGLAR, CPA
S.J. DOMEYER, CPA
M.A. KUEPERS, CPA
J.W. HANNAN, CPA
M.P. RUGGEBERG, CPA
P.C. MCCARTHY, CPA
E.A. SCHILLING, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
McGregor Municipal Utilities
McGregor, Iowa

We have audited the accompanying statement of net assets of the McGregor Municipal Utilities (Electric and Water Enterprise funds) of McGregor, Iowa, as of and for the year ended June 30, 2009, and the related statements of activities, revenue, expenses and changes in fund net assets, and statement of cash flows as listed in the table of contents. These financial statements are the responsibility of the City of McGregor, Iowa, management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principals used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

We did not observe the physical inventory as of June 30, 2008, since that date was prior to our engagement as auditors for the McGregor Municipal Utilities, nor did we perform procedures on cash, accounts receivable, payables, and loan payable accounts per request of management.

Because of the matter discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the results of operations and cash flows for the year ended June 30, 2009.

As discussed in Note 1, the financial statements present only the Electric and Water Enterprise funds and do not purport to, and do not, present fairly the financial position of the City of McGregor, Iowa, as of June 30, 2009, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United State of America.

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In our opinion, the statement of net assets referred to in the first paragraph presents fairly, in all material respects, the financial position of the Electric and Water Enterprise fund of the City of McGregor, Iowa, as of June 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 25, 2009, on our consideration of the McGregor Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 4 through 9 and budgetary comparison information on pages 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the city's business type activities. The accompanying other supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information, except for that portion labeled as "unaudited", which we express no opinion, has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

O'CONNOR, BROOKS & CO., P.C.

O'Connor Brooks & Co. P.C.

Dubuque, Iowa
November 25, 2009

McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA

MANAGEMENT'S DISCUSSION AND ANALYSIS

McGregor Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The Utilities' net assets increased by \$16,621 throughout the year's operation to \$726,492.
- During the year, the Utilities' expenses were \$841,860.
- The Utilities' service revenues for the year were \$841,866.
- The Utilities also recorded unrestricted investment earnings of \$5,252.
- The Water Fund reported a net result of income and expenses of \$5,714.
- The Electric Fund reported a net result of income and expenses of \$10,907.
- Budgeted resources available for appropriation exceeded the actual by \$50,704.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – *management's discussion and analysis* (this section), and the *basic financial statements*. The basic financial statements include two kinds of statements that present different views of the Utilities.

- The first two statements are *business type activities* financial statements that provide both long-term and short-term information about the Utilities' overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the Utilities' government, reports the Utilities' operations in more detail than the business type activities statements
 - Proprietary fund statements offer short and long-term financial information about the activities the Utilities operates like businesses.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Figure A-1 summarized the major features of the *business type activities* financial statements, including the portion of the Utilities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1

**Major Features of McGregor Municipal Utilities Business Type Activities
and Fund Financial Statements**

	Business Type Activities	Fund Statements Proprietary Fund
Scope	Business type activities	Activities the Utilities operate similar to private businesses
Required financial statements	Statement of Net Assets Statement of Activities	Statement of Net Assets Statement of Revenues, Expenses, and Changes in Fund Assets Statement of Cash Flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Business Type Activities

The business type activities financial statements report information about the Utilities as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Utilities' assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two business type activities statements report the Utilities' net assets and how they have changed. Net assets - the difference between the Utilities' assets and liabilities - is one way to measure the Utilities' financial health, or position.

- Over time, increases or decreases in the Utilities' net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Utilities you need to consider additional nonfinancial factors such as changes in the Utilities' rates and the condition of the Utilities' equipment.

Fund Financial Statements

The fund financial statements provide more detailed information about the business type activities. Funds are accounting devices that the Utilities use to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Utilities Board establishes other funds to control and manage money for a particular purpose or to show that it is properly using certain monies.

The Utilities has one kind of fund:

- *Proprietary fund* - Services for which the Utilities charge customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information
 - In fact, the Utilities' enterprise funds (one type of proprietary fund) are the same as its business type activities, but provide more detail and additional information, such as cash flows.

FINANCIAL ANALYSIS OF THE UTILITIES AS A WHOLE

Net Assets

The Utilities' combined net assets increased by \$16,621 throughout the year's operation to \$726,492. This includes \$5,252 of unrestricted investment earnings.

Changes in Net Assets

The Utilities' total revenues during the year were \$858,481. Nearly all of the Utilities' revenue comes from user fees.

FINANCIAL ANALYSIS OF THE UTILITIES FUNDS

Summary and Analysis of Business Type Activities

The Utilities has produced business type activities financial statements using the Accrual Basis of accounting and economic resources measurement focus. The following tables present condensed information in net assets and changes in net assets for the year ended June 30, 2009.

Assets:	
Current assets	\$ 524,869
Capital assets	265,094

Total Assets	\$ 789,963

Total Liabilities	\$ 63,471

Net Assets:	
Investment in capital assets,	
Net of depreciation	\$ 261,435
Unrestricted	465,057

Total Net Assets	\$ 726,492
	=====

The amount by which the Utilities' assets exceed its liabilities is called net assets. At year end, the Utilities' net assets were \$726,492. Of that amount, approximately \$261,435 was invested in capital assets, net of depreciation related to those assets. The remaining \$465,057 was unrestricted and available for future use as directed by the Board of Trustees.

Revenues:	
Charges for service	\$ 841,866
Miscellaneous income	11,363
Interest earned	5,252

Total Revenues	\$ 858,481

Business Type Activities Expenses:	
Electric	\$ 770,266
Water	71,594

Total Business Type Activities Expenses	\$ 841,860

Increase in Net Assets	\$ 16,621
	=====

Budgetary Highlights

The Utilities does not keep a separate budget; their budget is four line items on the City Budget, revenue for the Water and Electric with an expense for each. The Utilities acknowledged \$55,956 less in charges for services than what was budgeted, and \$9,541 more of business type activities disbursements. The Utilities received \$5,252 of investment earnings that was not budgeted for the year. Leaving the net effect of a deficit of receipts and other financing sources under disbursements and other financing uses of \$60,245. Over the course of the year, the Utilities Board did not revise the budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2009, the Utilities had invested \$1,629,216 (\$265,094 net of accumulated depreciation) in a broad range of capital assets, including equipment, buildings, electric and water lines. This amount represents a net increase (including additions and deductions) of \$16,090 over last year. This year's major capital asset additions included extensions to the distribution system.

Short-term Debt

At June 30, 2009, the Utility had \$3,659 in short-term debt. The loan was paid off in September, 2009. Additional information about the Utility's short-term debt is presented in Note 4 to the financial statements.

Outstanding Debt June 30, 2009					
	Balance Beginning of Year	Increase	Decrease	Balance End of Year	Due Within One Year
Note Payable	\$ 20,554	\$ ---	\$ 16,895	\$ 3,659	\$ 3,659

Economic Factors Bearing on the Utilities' Future

The Utilities' largest vulnerability for sizeable capital projects is a generator. The options the Utility Board will face when one of the three generator units expires will be to purchase firm power at a higher rate to make up the difference in energy load, purchase a new generating unit or to reduce the electric load within our service territory area. The Board has decided when an engine is inoperable they will have an engineering study done in order to figure out what will be in the best interest of the City and our electric utility customers.

The electric industry is changing rapidly pertaining to reducing customer's loads during peak periods, time-of-use-rates and energy efficiency. Among these changes, in 2008, the Iowa General Assembly passed legislation requiring all municipal electric and gas utilities to conduct a cost-effective energy efficiency potential to set goals and to report these goals by the end of 2009. McGregor Municipal Utilities has set their goals to reduce their customer's usage by 0.50% in 2010, 0.60% in 2011, and 0.75% in 2012. McGregor Municipal Utilities has also committed additional expenditures of \$3,332 in 2010 to help promote and help achieve their goal. Additional rebates are going to be offered for new appliances, the CFL program is still part of the program, and commercial lighting reduction will be targeted. A Smart Grid technology program is beginning to be implemented around the world in order to shave peak periods by allowing utility companies to control certain loads at the customer's location in order to keep costs down for both the customer and the utility companies. Several changes could be made pertaining to the Smart Grid system including smart thermostats, switches and metering but it is too early to tell what role McGregor Municipal Utilities will take regarding the Smart Grid system. The Utilities' cost could be significant if they participate in a Smart Grid project.

The two water systems of Well #6 & Well #7 will be joined together in late 2009, early 2010. In order to make this happen, the Utility Board has agreed to put \$10,000 of water revenue toward the City project to fund adding the lower booster pump to the project. Both water systems will then have a back-up well in case one would be down and need to be serviced. The Utility may also consider upgrading the well #6 pump and motor to a more energy efficient motor when funding is feasible.

CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and investors, and creditors with a general overview of the Utilities' finances and to demonstrate the Utilities' accountability for the money it receives. If you have questions about this report or need additional financial information, contact the McGregor Utilities office, 126 First Street, McGregor, IA 52157.

BASIC FINANCIAL STATEMENTS

EXHIBIT "A"**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA****STATEMENT OF NET ASSETS
JUNE 30, 2009**

	Business Type Activities -----
Assets	
Cash and cash equivalents	\$ 151,238
Receivables:	
Customer accounts and unbilled usage	
Net of allowance for doubtful accounts of \$9,045	126,479
Inventories	139,657
Restricted assets:	
Cash and cash equivalents	107,495
Capital assets (net of accumulated depreciation)	265,094

Total Assets	\$ 789,963

Liabilities	
Accounts payable	\$ 40,622
Flex spending	1,362
Compensated absences	11,000
Customer deposits (payable from restricted assets)	6,828
Note payable due within one year	3,659

Total Liabilities	\$ 63,471

Net Assets	
Invested in capital assets, net of related debt	\$ 261,435
Unrestricted	465,057

Total Net Assets	\$ 726,492
	=====

See notes to financial statements.

EXHIBIT "B"

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009**

	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions	Total
<u>Function/Program:</u>	-----	-----	-----	-----	-----
Business Type Activities:					
Electric	\$ 770,266	\$ 776,841	\$ ---	\$ ---	\$ 6,575
Water	71,594	76,388	---	---	4,794
	-----	-----	-----	-----	-----
Total Business Type Activities	\$ 841,860	\$ 853,229	\$ ---	\$ ---	\$ 11,369
	=====	=====	=====	=====	-----
General Revenues:					
Unrestricted investment earnings					\$ 5,252

Change in net assets					\$ 16,621

Net assets – beginning of year					\$709,871

Net assets – end of year					\$726,492
					=====

See notes to financial statements.

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS**

JUNE 30, 2009

	Proprietary Funds		
	Electric	Water	Total
Assets			
Cash and cash equivalents	\$ 99,125	\$ 52,113	\$ 151,238
Receivables:			
Customer accounts and unbilled usage	115,836	10,643	126,479
Net of allowance for doubtful accounts of \$8,298 and \$747 respectively			
Inventories	107,051	32,606	139,657
Restricted assets:			
Cash and cash equivalents	107,495	---	107,495
Capital assets (net of accumulated depreciation)	195,002	70,092	265,094
	<u> </u>	<u> </u>	<u> </u>
Total Assets	\$ 624,509	\$ 165,454	\$ 789,963
	<u> </u>	<u> </u>	<u> </u>
Liabilities			
Accounts payable	\$ 35,533	\$ 5,089	\$ 40,622
Flex spending	1,362	---	1,362
Compensated absences	11,000	---	11,000
Payable from restricted assets:			
Customer deposits	6,828	---	6,828
Note payable due within one year	3,659	---	3,659
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	\$ 58,382	\$ 5,089	\$ 63,471
	<u> </u>	<u> </u>	<u> </u>
Net Assets			
Invested in capital assets, net of related debt	\$ 191,343	\$ 70,092	\$ 261,435
Unrestricted			
Undesignated	283,835	90,273	374,108
Board designated	90,949	---	90,949
	<u> </u>	<u> </u>	<u> </u>
Total Net Assets	\$ 566,127	\$ 160,365	\$ 726,492
	<u> </u>	<u> </u>	<u> </u>

See notes to financial statements.

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2009**

	Proprietary Funds		
	Electric	Water	Total
Operating Revenue:			
Charges for service	\$ 768,756	\$ 73,110	\$ 841,866
Miscellaneous	8,085	3,278	11,363
Total Operating Revenue	\$ 776,841	\$ 76,388	\$ 853,229
Operating Expenses:			
Production Expenses:			
Supervision and labor	\$ 55,889	\$ 6,972	\$ 62,861
Generator and boiler fuel	5,361	800	6,161
Power and pumping	---	6,729	6,729
Chemicals	---	837	837
Payroll taxes and IPERS	7,665	956	8,621
Sales and use taxes	25,402	4,390	29,792
Insurance - employee medical	6,862	856	7,718
Insurance - general	7,902	2,305	10,207
Supplies	4,669	209	4,878
Maintenance material and labor	1,701	2,017	3,718
Miscellaneous	1,968	148	2,116
Purchase electrical power	471,040	---	471,040
MISO Expense	8,533	---	8,533
Total Production Expenses	\$ 596,992	\$ 26,219	\$ 623,211
Distribution Expenses:			
Supervision and labor	\$ 18,762	\$ 5,446	\$ 24,208
Truck expenses	10,482	1,254	11,736
Payroll taxes and IPERS	4,590	778	5,368
Insurance - employee medical	4,109	696	4,805
Insurance - general	5,268	577	5,845
Supplies	2,589	1,593	4,182
Maintenance material and labor	6,067	3,559	9,626
Miscellaneous	4,421	510	4,931
Water lab tests	---	1,851	1,851
Total Distribution Expenses	\$ 56,288	\$ 16,264	\$ 72,552

See notes to financial statements.

EXHIBIT "D" (continued)

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2009**

	Proprietary Funds		
	Electric	Water	Total
Operating Expenses: (Continued)			
Accounting and Collection Expenses:			
Salary and wages	\$ 38,188	\$ 11,167	\$ 49,355
Payroll taxes and IPERS	5,237	1,531	6,768
Insurance - employee medical	4,688	1,371	6,059
Bad debts	5,815	87	5,902
Office supplies	4,168	2,605	6,773
Miscellaneous	2,224	616	2,840
	-----	-----	-----
Total Accounting and Collection Expenses	\$ 60,320	\$ 17,377	\$ 77,697
	-----	-----	-----
Administrative and General:			
Trustee and treasurer fees	\$ 938	\$ 738	\$ 1,676
Professional services & publications expenses	16,194	1,513	17,707
Supplies and miscellaneous	1,513	1,202	2,715
City - County garage	2,145	---	2,145
Energy efficiency program	3,716	---	3,716
	-----	-----	-----
Total Administrative and General Expenses	\$ 24,506	\$ 3,453	\$ 27,959
	-----	-----	-----
Total Operating Expenses Before Depreciation	\$ 738,106	\$ 63,313	\$ 801,419
Depreciation	31,470	8,281	39,751
	-----	-----	-----
Net Operating Expenses	\$ 769,576	\$ 71,594	\$ 841,170
	-----	-----	-----
Net Operating Revenue	\$ 7,265	\$ 4,794	\$ 12,059
	-----	-----	-----
Non-Operating Revenue (Expenses):			
Interest income	\$ 4,332	\$ 920	\$ 5,252
Interest expense	(690)	---	(690)
	-----	-----	-----
Total Non-Operating Revenue	\$ 3,642	\$ 920	\$ 4,562
	-----	-----	-----
Change in Net Assets	\$ 10,907	\$ 5,714	\$ 16,621
Net Assets Beginning of Year	555,220	154,651	709,871
	-----	-----	-----
Net Assets End of Year	\$ 566,127	\$ 160,365	\$ 726,492
	=====	=====	=====

See notes to financial statements.

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2009**

	Proprietary Funds		
	Electric	Water	Total
Cash Flows From Operating Activities:			
Cash received from customers and users	\$ 759,237	\$ 76,264	\$ 835,501
Cash received from other revenues	8,085	2,458	10,543
Cash paid for personal services	(145,990)	(29,773)	(175,763)
Cash paid to suppliers	(95,100)	(34,349)	(129,449)
Cash paid for purchased power	(471,040)	---	(471,040)
Net Cash Provided by Operating Activities	\$ 55,192	\$ 14,600	\$ 69,792
Cash Flows From Capital and Related Financing Activities:			
Acquisition of capital assets	\$ (54,613)	\$ (2,091)	\$ (56,704)
Interest paid	(690)	---	(690)
Repayment of note	(16,895)	---	(16,895)
Net Cash Used for Capital and Related Financing Activities	\$ (72,198)	\$ (2,091)	\$ (74,289)
Cash Flows From Investing Activities:			
Interest on investments	\$ 4,332	\$ 920	\$ 5,252
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (12,674)	\$ 13,429	\$ 755
Cash and Cash Equivalents Beginning of Year	219,294	38,684	257,978
Cash and Cash Equivalents End of Year	\$ 206,620	\$ 52,113	\$ 258,733

See notes to financial statements.

EXHIBIT "E" (continued)

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2009**

	Proprietary Funds		
	Electric	Water	Total
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating income	\$ 7,265	\$ 4,794	\$ 12,059
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	31,470	8,281	39,751
Increase (decrease) in allowance for doubtful accounts	2,085	(88)	1,997
(Increase) in customer accounts receivable	(11,604)	2,422	(9,182)
(Increase) decrease in inventories, at cost	(895)	384	(511)
Increase (decrease) in accounts payable	27,718	(1,193)	26,525
Increase (decrease) flex spending	(460)	---	(460)
Increase (decrease) in customer deposits	(387)	---	(387)
Net Cash Provided by Operating Activities	<u>\$ 55,192</u>	<u>\$ 14,600</u>	<u>\$ 69,792</u>
Reconciliation of Cash and Cash Equivalents at Year End to Specific Assets Included on the Statement of Net Assets:			
Current Assets:			
Cash	\$ 99,125	\$ 52,113	\$ 151,238
Restricted Assets:			
Cash:			
Revenue contingency bond	90,949	---	90,949
Customer deposits	6,828	---	6,828
Special projects	9,718	---	9,718
Cash and Cash Equivalents at Year End	<u>\$ 206,620</u>	<u>\$ 52,113</u>	<u>\$ 258,733</u>

See notes to financial statements.

McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Note 1 - Summary of Significant Accounting Policies:

The McGregor Municipal Utilities (the Utility) are separate enterprise funds of the City of McGregor. The Utility provides electricity and water to properties within the City of McGregor and is managed by the Board of Trustees, who are appointed by the mayor and approved by the City Council.

The financial statements of the McGregor Municipal Utilities have been prepared in conformity with U.S. generally accepted accounting principals (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the McGregor Municipal Utilities has included all funds, organizations, agencies, boards, commissions and authorities. The Utility has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. The Utility has no component units which meet these criteria.

B. Basis of Presentation

Proprietary Fund Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the proprietary funds. For the most part, the effect of interfund activity has been removed from these statements. Business type activities rely to a significant extent on fees and charges for services.

The Statement of Net Assets presents the Utility's proprietary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 1 - Summary of Significant Accounting Policies: (Continued)

B. Basis of Presentation (Continued)

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Interest earnings and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for proprietary funds. Major individual proprietary funds are reported as separate columns in the fund financial statements.

The Utility reports the following major proprietary funds:

Enterprise:

The Water Fund is used to account for the operation and maintenance of the Utility's water system.

The Electric Fund is used to account for the operation and maintenance of the Utility's electric system.

McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Note 1 - Summary of Significant Accounting Policies: (Continued)

C. Measurement Focus and Basis of Accounting

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are capitalized in proprietary funds.

The proprietary funds of the Utility apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utility's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Estimates - The preparation of financial statements in conformity with United States of America generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 1 - Summary of Significant Accounting Policies: (Continued)

D. Assets, Liabilities and Fund Equity (Continued)

Cash and Cash Equivalents – The cash balances of most Utility funds are pooled and invested. Investments consist of non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, have a maturity date no longer than one year.

Customer Accounts Receivable – Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

The Utility uses the allowance method of accounting for bad debts, which is a percentage of the accounts receivable. Bad debts charged against the Electric and Water Funds for the year ended June 30, 2009 were \$5,815 and \$87 respectively.

Inventories – Inventories consist of supplies, fuel oil and materials for distribution repair. Extensions are recognized as expense or capital improvements at the time they are put into service. Inventory items are valued at the lower of cost or market, using the first-in, first-out method.

Restricted Assets – Board designated funds are set aside for the repair or replacement of the Utility's electric generators. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers or special projects.

Capital Assets – Capital assets include property, equipment and vehicles. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extend asset lives are not capitalized.

McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Note 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Fund Equity (Continued)

Capital assets of the Utility are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	10-33 years
Generators and Equipment	8-25 years
Distribution System	20-25 years
Vehicles	5-10 years
Office Equipment	10 years
Interconnect	25 years

Compensated Absences – Employees accumulate sick time and vacation for subsequent use. The Utility's policy provides for payout of accumulated vacation and comp time and prohibits payoff of accumulated sick time at termination of employment. The Utility's approximate liability for earned vacation and comp time payments to employees at June 30, 2009 was \$11,000 for the Electric Fund. The liability has been computed based on rates of pay at June 30, 2009.

Fund Equity – In the proprietary fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the business type activities function.

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 2 - Cash and Cash Equivalents:

The Utility's deposits in banks at June 30, 2009, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Note 3 – Capital Assets:

Capital assets activity for the year ended June 30, 2009 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	-----	-----	-----	-----
Business Type Activities:				
Capital assets not being depreciated:				
Land	\$ 1,140	\$ ---	\$ ---	\$ 1,140
	-----	-----	-----	-----
Total Capital Assets Not Being Depreciated	\$ 1,140	\$ ---	\$ ---	\$ 1,140
	-----	-----	-----	-----
Capital Assets Being Depreciated:				
Buildings	\$ 71,526	\$ ---	\$ ---	\$ 71,526
Office equipment	23,779	---	---	23,779
Generators and equipment	632,399	24,050	---	656,449
Pump and equipment	16,081	978	---	17,059
Chlorinator	3,960	---	---	3,960
Distribution system	595,204	31,676	---	626,880
Interconnect	64,809	---	---	64,809
Vehicles	147,814	---	40,614	107,200
Well	12,005	---	---	12,005
Reservoir	44,409	---	---	44,409
	-----	-----	-----	-----
Total Capital Assets Being Depreciated	\$ 1,611,986	\$ 56,704	\$ 40,614	\$ 1,628,076
	-----	-----	-----	-----
Less Accumulated Depreciation For:				
Buildings	\$ 52,592	\$ 1,295	\$ ---	\$ 53,887
Office equipment	23,779	---	---	23,779
Generators and equipment	597,540	4,233	---	601,773
Pump and equipment	16,081	8	---	16,089
Chlorinator	3,960	---	---	3,960
Distribution system	468,100	14,984	---	483,084
Interconnect	64,809	---	---	64,809
Vehicles	102,634	17,240	40,614	79,260
Well	11,952	53	---	12,005
Reservoir	23,538	1,938	---	25,476
	-----	-----	-----	-----
Total Accumulated Depreciation	\$ 1,364,985	\$ 39,751	\$ 40,614	\$ 1,364,122
	-----	-----	-----	-----
Total Capital Assets Being Depreciated, Net	\$ 247,001	\$ 16,953	\$ ---	\$ 263,954
	-----	-----	-----	-----
Business Type Activities Capital Assets, Net	\$ 248,141	\$ 16,953	\$ ---	\$ 265,094
	=====	=====	=====	=====

McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Note 3 – Capital Assets: (Continued)

Depreciation expense was charged to functions of the primary proprietary funds as follows:

Business type activities:

Electric	\$ 31,470
Water	8,281
	<u> </u>
Total depreciation expense – business type activities	<u>\$ 39,751</u>

Note 4 – Note Payable (Due Within One Year)

A summary of changes in long-term debt for the year ended June 30, 2009 is as follows:

	Balance Beginning of Year	Increase	Decrease	Balance End of Year	Due Within One Year
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Note Payable	\$ 20,554	\$ ---	\$ 16,895	\$ 3,659	\$ 3,659
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The Utility purchased an aerial truck during the year ending June 30, 2006. The Utility paid cash of \$14,000 and financed the remainder by issuing a note for \$58,000. The note bears interest at a rate of 5.35% per annum with monthly interest and principal payments of \$1,350. A schedule summarizing future minimum payments on the note is as follows:

Year Ending June 30	Principal	Interest	Total
<u> </u>	<u> </u>	<u> </u>	<u> </u>
2010	\$ 3,659	\$ 28	\$ 3,687
	<u> </u>	<u> </u>	<u> </u>

McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Note 5 – Pension and Retirement Benefits:

The Utility contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.10% of their annual covered salary and the Utility is required to contribute 6.35% of annual covered payroll. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the years ended June 30, 2009, 2008, 2007 were \$9,611, \$8,497, and \$7,751, respectively, equal to the required contributions for each year.

Note 6 – Risk Management:

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 7 – Firm Power Agreement:

On January 7, 2008, the Utility entered into a "Firm Power Agreement" with Dairyland Power Cooperative. Under the terms of the agreement, the Utility will purchase from Dairyland Power Cooperative (rather than generate) the majority of its electrical energy. This Agreement became effective on May 1, 2008, and remains in effect through April 30, 2028. This Agreement shall renew for an intermediate term thereafter unless terminated by either party by written notice of at least 24 months to the other party. The Utility paid \$471,040 for purchased power under this agreement for the year ended June 30, 2009.

Note 8 – Subsequent Events:

Management has evaluated subsequent events through November 25, 2009, the date on which the financial statements were available to be issued.

Note 9 - Related Party Transactions:

The Utility had business transactions between the Utility and Utility officials totaling \$65 during the year ended June 30, 2009.

REQUIRED SUPPLEMENTARY INFORMATION

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**BUDGETARY COMPARISON SCHEDULE OF
RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES –
BUDGET AND ACTUAL (CASH BASIS) –
PROPRIETARY FUNDS**

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2009

	Proprietary Funds Actual	Budgeted Amounts		Final to Actual Variance
	-----	----- Original	----- Final	-----
Receipts:				
Charges for services	\$ 846,044	\$ 902,000	\$ 902,000	\$ (55,956)
Investment earnings	5,252	---	---	5,252
Disbursements:				
Business type activities	850,541	841,000	841,000	(9,541)
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ 755	\$ 61,000	\$ 61,000	\$ (60,245)
Balances Beginning of Year	257,978	257,978	257,978	---
Balances End of Year	\$ 258,733	\$ 318,978	\$ 318,978	\$ (60,245)

See accompanying independent auditor's report.

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2009**

	Proprietary Funds Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 851,296	\$ 7,185	\$ 858,481
Expenditures/Expenses	850,541	(8,681)	841,860
Net	\$ 755	\$ 15,866	\$ 16,621
Beginning Fund Balances/Net Assets	257,978	451,893	709,871
Ending Fund Balances/Net Assets	\$ 258,733	\$ 467,759	\$ 726,492

See accompanying independent auditor's report.

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2009**

In accordance with the Code of Iowa, the Utility annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon major classes of disbursements known as functions, not by fund or fund type. Although the budget document presents function disbursements by fund, the legal level of control is at the city wide aggregated function level, not by fund.

During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the business type activities function.

OTHER SUPPLEMENTARY INFORMATION

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

ELECTRIC FUND

**SALES ANALYSIS FOR THE YEAR ENDED
JUNE 30, 2009 – CASH BASIS WITH COMPARATIVE
FIGURES FOR THE THREE PREVIOUS YEARS
UNAUDITED**

	Year Ended			
	2009	2008	2007	2006
KWH Sold:				
Residential	3,248,659 KWH	3,343,769 KWH	3,378,067 KWH	3,320,066 KWH
Industrial	1,948,000 KWH	1,914,640 KWH	1,876,000 KWH	1,819,200 KWH
Commercial	1,508,630 KWH	1,515,963 KWH	1,479,934 KWH	1,460,380 KWH
Public authority	317,579 KWH	338,089 KWH	325,902 KWH	294,376 KWH
Others	372,159 KWH	359,559 KWH	328,462 KWH	261,700 KWH
Street lights	134,470 KWH	128,908 KWH	128,827 KWH	130,183 KWH
Total	7,529,497 KWH	7,600,928 KWH	7,517,192 KWH	7,285,905 KWH
KWH Sold: (Percent)				
Residential	43.14%	43.99%	44.94%	45.57%
Industrial	25.87%	25.19%	24.96%	24.97%
Commercial	20.04%	19.94%	19.69%	20.04%
Public authority	4.22%	4.45%	4.34%	4.04%
Others	4.94%	4.73%	4.37%	3.59%
Street lights	1.79%	1.70%	1.70%	1.79%
Total	100.00%	100.00%	100.00%	100.00%
Sales:				
Residential	\$ 331,088	\$ 324,304	\$ 312,016	\$ 276,786
Industrial	197,369	176,000	161,117	145,900
Commercial	153,416	144,612	130,688	118,335
Public authority	29,485	28,827	25,703	23,327
Other	33,677	30,380	20,949	20,796
Street lights	12,795	11,384	10,483	9,658
Total	\$ 757,830	\$ 715,507	\$ 660,956	\$ 594,802
Sales: (Percent)				
Residential	43.69%	45.32%	47.21%	46.53%
Industrial	26.04%	24.60%	24.38%	24.53%
Commercial	20.25%	20.21%	19.77%	19.87%
Public authority	3.89%	4.03%	3.89%	3.92%
Others	4.44%	4.25%	3.16%	3.50%
Street lights	1.69%	1.59%	1.59%	1.65%
Total	100.00%	100.00%	100.00%	100.00%
Selling Price Per KWH:				
Residential	\$.10191	\$.09699	\$.09236	\$.08337
Industrial	.10132	.09192	.08588	.08020
Commercial	.10169	.09539	.08831	.08103
Public authority	.09284	.08526	.07887	.07924
Others	.09049	.08449	.06378	.07947
Street lights	.09515	.08831	.08137	.07417
Average all types	\$.10065	\$.09413	\$.08176	\$.07958

See accompanying independent auditor's report.

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

ELECTRIC FUND

**COMPARATIVE STATISTICAL DATA – KWH PRODUCED AND PURCHASED
AND KWH SOLD AND LOST**

UNAUDITED

	Year Ended			
	June 30, 2009	June 30, 2008	June 30, 2007	June 30, 2006
KWH produced and purchased	7,934,386	8,012,723	7,930,025	7,737,237
Less: sold	7,529,497	7,600,928	7,517,192	7,285,905
Balance Unsold	404,889	411,795	412,833	451,332
Percent Sold	94.90%	94.86%	94.79%	94.17%
Unsold Balance Used as Follows:				
Station service	136,570	111,800	105,950	104,340
Line loss and unaccounted for	268,319	299,995	306,883	346,992
	404,889	411,795	412,833	451,332
Line Loss Percentage	3.38%	3.74%	3.87%	4.48%

See accompanying independent auditor's report.

SCHEDULE "3"**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA****WATER FUND****COMPARATIVE STATISTICAL DATA
WATER SOLD AND WATER PUMPED****UNAUDITED**

	Year Ended			
	June 30, 2009	June 30, 2008	June 30, 2007	June 30, 2006
	-----	-----	-----	-----
Cubic feet of water pumped	4,672,326	5,003,862	5,390,789	5,504,091
Less: metered sales	2,960,414	3,120,975	3,208,808	3,382,783
	-----	-----	-----	-----
Balance (unmetered sales and unsold water)	1,711,912	1,882,887	2,181,981	2,121,308
	=====	=====	=====	=====
Percent of metered sales to water pumped	63.36%	62.37%	59.52%	61.46%
	=====	=====	=====	=====

See accompanying independent auditor's report.

O'CONNOR, BROOKS & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

G.L. HARDIN, CPA
W.H. LEGLAR, CPA
S.J. DOMEYER, CPA
M.A. KUEPERS, CPA
J.W. HANNAN, CPA
M.P. RUGGEBERG, CPA
P.C. MCCARTHY, CPA
E.A. SCHILLING, CPA

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
McGregor Municipal Utilities
McGregor, Iowa

We have audited the financial statements of the McGregor Municipal Utilities of the City of McGregor, Iowa, as of and for the year ended June 30, 2009, and have issued our report thereon dated November 25, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our report expressed an unqualified opinion on the financial position of the Utilities and a disclaimer of opinion on the results of operations and cash flows. In addition, our report included a disclaimer of opinion on the required supplementary information included in the Management's Discussion and Analysis and pages 26-28.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered McGregor Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of McGregor Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of McGregor Municipal Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects McGregor Municipal Utilities' ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of McGregor Municipal Utilities' financial statements that is more than inconsequential will not be prevented or detected by McGregor Municipal Utilities' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by McGregor Municipal Utilities' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. The significant deficiencies described in items I-A-09 and I-B-09 are also considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the McGregor Municipal Utilities financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the McGregor Municipal Utilities' operations for the year ended June 30, 2009, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the entities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

McGregor Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utility's responses, we did not audit the Utility's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the McGregor Municipal Utilities of the City of McGregor and other parties to whom the Utility may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the McGregor Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

O'CONNOR, BROOKS & CO., P.C.

O'Connor Brooks Co PC

Dubuque, Iowa
November 25, 2009

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009**

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES/MATERIAL WEAKNESSES:

I-A-09 **Segregation of Duties** – The size of the Utility's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances, and the Board of Trustees remain involved in the financial affairs of the Utility to provide oversight and independent review functions.

Response – We will consider this.

Conclusion – Response acknowledged.

I-B-09 **Cash Reconciliation** – Cash is being reconciled from the Utility's bank statements to the cash subsidiary ledger, however the reconciled cash balance is not being compared to the general ledger balance.

Recommendation – A cash reconciliation that reconciles from the bank balance to the general ledger balance should be prepared to make sure they are in agreement and to determine that all cash transactions have been recorded properly and to discover bank errors.

In order to make the financial reports generated by the accounting system as meaningful as possible, the Utility should reconcile the general ledger accounts for cash to supporting documentation on a monthly basis. A benefit of monthly reconciliations is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations.

Response – Cash will be reconciled to the general ledger in the future.

Conclusion – Response accepted.

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009**

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-09 **Certified Budget** – Disbursements during the year ended June 30, 2009, exceeded the amounts budgeted in the business type activities function. Chapter 384.20 of the Code of Iowa states, in part, "public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

- II-B-09 **Questionable Disbursements** – We noted no expenditures for parties, banquets or other entertainment for utility employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-09 **Travel Expense** – No expenditures of Utility money for travel expenses of spouses of Utility officials or employees were noted.

- II-D-09 **Business Transactions** – Business transactions between the Utility and the Utility's directors or employees are detailed below as follows:

Name, Title, and Business Connection	Transaction Description	Amount
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Mike Eilers, Board Member, Owner of Eilers Electric	Electrical Work	\$ 65

In accordance with Chapter 362.5(11) of the Code of Iowa, the transaction with the Board Member does not appear to represent a conflict of interest since total transactions with the individual were less than \$2,500 during the fiscal year.

- II-E-09 **Bond Coverage** – Surety bond coverage of city officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-09 **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes which were not.

**McGREGOR MUNICIPAL UTILITIES
McGREGOR, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009**

Part II: Other Findings Related to Required Statutory Reporting: (Continued)

II-G-09 **Deposits and Investments** – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utility's investment policy.

II-H-09 **Publication of Receipts** - Minutes of the Board of Trustees published in a newspaper do not include a summary of receipts. Chapter 372.13(b) of the Code of Iowa states that the publication should include a summary of all receipts.

Recommendation – A summary of receipts should be included with the publication of the minutes of the Board of Trustees.

Response – We will include a summary of receipts in the publication.

Conclusion – Response accepted.